Conclusions

ERS publishes indicators of economic well-being for farm operator households. To date, the focus has been on income- and wealth-based measures calculated from the annual survey of farm households conducted by USDA (ARMS). In this report, we present estimates of a consumption measure for farm households calculated using revised ARMS expenditure questions, and benchmark the measure against the Bureau of Labor Statistics' Consumer Expenditure Survey (CE).

To assess the possibility of distortions introduced into the comparison from using surveys with different elicitation methods for expenditures, we conducted within-survey comparisons: within CE, we compared data for a sample of farm households created by pooling data for 2005-07 with data for all U.S. households; within ARMS, we compared data for two farm household subgroups that diverge substantially in their degree of reliance on farm income. The results support the reasonableness of the findings.

Citing extensive literature on household well-being, we argue on conceptual grounds that current consumption of goods and services provides an important complement to income and wealth in characterizing household economic well-being. Whereas income and wealth are important indicators of resources, current consumption is an indicator of current material standard of living. Further, consumption provides useful information about a household's lifetime standard of living because, when households face temporary increases or decreases in income relative to long-term income expectations, they tend to smooth consumption relative to variable income in order to maintain a standard of living linked to their long-term income expectations.

At an individual household level, there is not a close mapping between the income and consumption measures for farm households, compared with all U.S. households. Also, across the population, the consumption measure provides a different perspective than income and wealth on the distribution of well-being among farm households relative to all U.S. households. Farm households appear to have higher equivalent-income than all U.S. households at all income deciles but the lowest. But farm households, which are exposed to greater income volatility, have lower marginal propensities to consume from current income. The net effect is that the distribution of consumption appears to be similar for farm and all U.S. households. However, for farm households, the data suggest that consumption is higher at the low end of the distribution and lower at the high end of the distribution relative to all U.S. households.

Analogously, using poverty rates as an indicator of disadvantage within the populations, the relative levels of disadvantage are reversed when we switch from an income-poverty rate to a consumption-poverty rate, calculated by comparing household consumption to the census poverty threshold employed in official U.S. income poverty statistics. Whereas the income poverty rate is higher, the consumption poverty rate is lower for farm households relative to all U.S. households. The divergence in income- and consumption-poverty rates between farm and all U.S. households is even greater when we focus on households that operate farms with sales of $100,000 or more, which are more exposed to the income risks of self-employment.